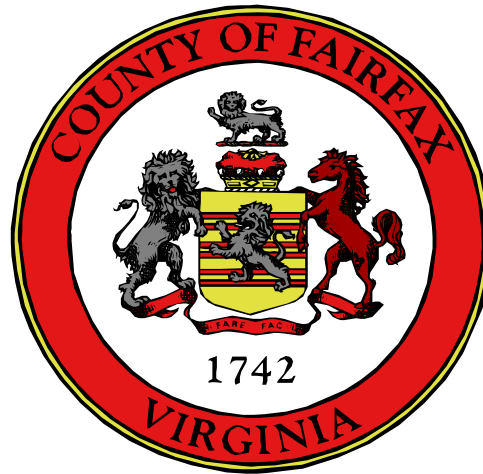


INTERNAL AUDIT REPORT

Audit of CASPS Accounts Payable Module



Fairfax County Internal Audit Office

**FAIRFAX COUNTY, VIRGINIA
INTERNAL AUDIT OFFICE
M E M O R A N D U M**

TO: Anthony H. Griffin
County Executive

DATE: September 22, 2000

FROM: Ronald A. Coen, Director
Internal Audit Office

SUBJECT: Report on the *“CASPS Accounts Payable Module”*

This is a report on the *“CASPS Accounts Payable Module”*. It was performed as part of our FY2000 Annual Audit Plan.

The findings and recommendations of this audit were discussed with the Department of Finance. We have reached agreement on all of the recommendations and I will follow up periodically until implementation is complete. Their responses are incorporated into the report and the full response is attached at the end of the report. After your review and approval, we will release the report to the Board of Supervisors.

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Introduction

The Department of Finance (DOF), Accounts Payable Section, serves 86 County operating departments by managing the accounts payable module of the system called CASPS (County and Schools Procurement System). County departments are responsible for the initiation and approval of all accounts payable transactions that do not exceed \$5,000. The Department of Finance Accounts Payable Section is responsible for approving all other transactions by verifying the method of payment, propriety of the vendor, and department authorization. For Fiscal Year 2000, as of April 18, 2000, approximately 22,900 transactions totaling \$250,631,000 were processed.

Fundamental to all accounting functions is a system of principles and practices intended to protect the assets of the organization and to ensure the integrity of the financial process. The system is often referred to as the organization's internal controls. While these systems may be tailored to the specific needs of each organization, there are certain fundamental principles, which must be found in every department. The effective management of accounts payable processing should include appropriate separation of duties. Separation of duties is a preventative control. Simply stated, certain steps in a process must be performed by different people. It is not a matter of trustworthiness of any individual. By assuring separation of duties, there is a reduced opportunity for error, non-performance, poor performance, theft and fraud. This control protects both the County and the individuals assigned to related responsibilities involving financial transactions.

Purpose and Scope

This audit was performed as part of our FY 2000 long-range Audit Plan. Our audit objectives were to:

- Determine the adequacy of separation of duties
- Review controls over accounts payable and check processing functions
- Determine compliance with applicable policies and procedures

We selected a random sample of transactions from ten (10) County departments to evaluate their internal controls over accounts payable processing and compliance with procedures. We selected departments with medium and large operations as follows:

- Police Department
- Fire & Rescue
- Vehicle Services
- McLean Community Center
- Planning & Zoning
- Wastewater Treatment
- Solid Waste Disposal & Resource Management
- Department of Tax Administration
- Office of the Sheriff
- Human Resources

The audit period covered Fiscal Year 2000 through April 2000. The benefits of this audit include stronger controls, improved performance, and to inform management on the adequacy of the accounts payable process.

Methodology

Our objective was to determine if proper separation of duties and appropriate level of system access are in place and being followed by the departments and that accounts payable transactions are being processed accurately and timely and in accordance with Department of Finance guidelines. We reviewed and analyzed internal control procedures, accounts payable transactions and related accounting records. Our review included interviewing appropriate County employees, examinations of accounts payable records and statements, and a review of internal manuals and procedures. The audit was conducted in accordance with generally accepted government auditing standards.

Executive Summary

In our opinion, from the review of the Accounts Payable process at the ten (10) County departments, we found that the principles of separation of duties, reviewing, initiating and authorization of financial transactions were adequate and operating effectively. However, compliance with County policies in departments and separation of duties in centralized operations have the following opportunities for enhancements and are discussed in detail in the report.

- Twenty- eight percent (28%) of the vendor payments in our sample were not made in a timely manner. Payments averaging from 20 days early to 34 days late were noted. In addition, the departments did not take advantage of any of the 5 available discounts in our sample. Lastly, 22% of the payments selected were not remitted to the correct vendor address. DOF should develop procedures to guide departments and provide additional follow-up training with departments. As a result of our review of the selected departments, we are of the opinion that the issues are common to the majority of the County operating departments. Therefore, DOF should address the recommendations for the County as a whole and not be limited to the selected departments.

Additionally, relative to the potential for late payments, a check due date maintenance table was implemented in February 2000 to ensure that checks are printed prior to the payment due date. Prior to the implementation of the system fix, some checks were printed after the payment was actually due.

- A conflict with the separation of duties principle exists in DOF in that the individual who receives returned checks also logs, researches and re-mails the check. In addition the DOF Bank Reconciliation Section procedures manual does not address the separation of these duties. DOF should assign responsibilities so that the receiving and logging of returned checks is performed independently of the researching and re-mailing of the checks.

Comments and Recommendations

1. Not all vendor payments are being made in accordance with County policies.

Our review of 100 accounts payable transactions processed by the ten (10) County departments revealed that, in some cases, on-line receipt is completed after the invoice is received; incorrect invoice dates are being entered; invoices are not being processed in a timely manner; and payments are not being remitted to the correct vendor address. The General Conditions & Instructions to Bidders indicates that payment due dates are based upon the later of the date of receipt or the receipt of a correct invoice by the department. Additionally, unless a prompt payment discount is offered, terms are interpreted to mean net 30 days. The CASPS manual indicates that receiving should be completed within 72 hours of receiving the goods.

Departmental staff are not consistently processing invoices in accordance with the system training they received prior to gaining access to CASPS. In addition, other than system user manuals, there are no accounts payable guidelines in place for users. This resulted in untimely payments, lost discounts and remittance errors. Of the 100 transactions reviewed, 28% of the payments were not paid timely. Fifty percent (50%) of the departments were using incorrect invoice dates and paying invoices an average of 20 days early. Sixty percent (60%) of the departments were delaying the processing of invoices and paying an average of 34 days late. The departments did not take advantage of any of the 5 available discounts in our sample and lost an average of \$17.35 in discounts due to incorrect invoice date usage or delayed processing. It was noted that only 5 out of 100 invoices offered a prompt payment discount. The County did not take advantage of any of the discounts offered. Lastly, 22 % of the 50 payments selected for remittance review were sent to the incorrect vendor address further delaying payment.

Recommendation

DOF should develop procedures to guide departments in the processing of accounts payable transactions. These procedures should include a non-technical step by step processing guide, which specifically addresses guidance on invoice dates; avoidance of early and late payments; and instructions concerning the steps to achieve available discounts. In addition, DOF should provide additional follow-up training with the decentralized departments to ensure that the processing of accounts payable transactions is accurate, timely and consistent. We emphasize that in view of the number of serious errors identified in departmental payment processing, this training should be mandatory. As a result of our review, we are of the opinion that the issues are common to the majority of the County operating departments. Therefore, DOF should address the recommendations for the County as a whole.

Department Response

The DOF is establishing a Process Review Team (PRT) to perform agency site visits in order to form an opinion regarding the adequacy of the site's accounts payable processing controls and determine areas where assistance is needed. The team will assess the strengths and weaknesses in processing functions; training needs; internal policies and procedures; document retention; adherence to internal control guidelines and Accounting Technical Bulletins; and areas needing additional guidance and instruction.

2. There is a lack of separation of duties for the DOF Bank Reconciliation Section return check clerk.

The return check clerk receives the returned checks, maintains the return check log on a spreadsheet, performs the research, submits a letter to agencies indicating the action to be taken, when necessary, and re-mails the checks. The Supervisor reviews the check log; however, there is no evidence of the review noted on the log. In accordance with DFN-020-1, Accounts Payable Internal Controls - Separation of Duties, different individuals must perform steps in a process to reduce the opportunity for misuse of funds.

The DOF Bank Reconciliation Section procedures manual outlines the duties of the return check clerk but it does not address the separation of duties. Separation of duties reduce the effects of errors, theft and fraud. The current circumstance allows a single individual to carry out the entire process. This lack of separation of duties allows an individual to fraudulently endorse and cash a returned check.

Recommendation

The DOF Bank Reconciliation Section should assign responsibilities so that the receiving and logging process is performed independently of the researching and re-mailing responsibilities for returned checks. In addition, supervisory review of the log should be evidenced by initialing and dating the log.

Department Response

The DOF has implemented separation of duties for the Check return Clerk. An Accounting Technician, or other staff member, will receive and log the returned checks. The Check Return Clerk will then research and take appropriate action on the check. In addition, the log will be reviewed on a weekly basis by the Bank Reconciliation Supervisor.